THE INTERNATIONAL FACTOR IN PRICE FLUCTUATIONS

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As I have listened to the preceding discussions of the causes of high prices my task of making a contribution has grown increasingly difficult. One by one the topics that require analysis have been dealt with, and I am left with little to say except that, technical matters apart, most of what has been said with reference to the United States applies to the world at large. We are prone to overlook, at least to understress, the international factors in our economic life. Let me recall therefore the close relations which subsist between changes in the price levels of the United States and the great states of Europe.

Once I had occasion to investigate carefully the wholesale price fluctuations of 1890-1910 in America, England, France, and Germany. I found that the curves representing the price levels of the three European countries agreed very closely with each other, so closely that one might fairly speak of a European price level in those twenty years. This composite European curve, however, differed somewhat from the corresponding American curve. Europe had a business crisis in 1890 as did we, but the succeeding depression was not aggravated by such monetary uncertainties as intensified our troubles in 1893 and 1896. While the price level fell on both sides of the Atlantic from 1890 to '96 the fall was more violent on this side. Next, the crisis of 1900-01 was severe in Europe, and scarcely distinguishable in America. That crisis was followed by a drop in English, French and German prices,—a drop from which recovery did not come until 1904-05. In America these years brought irregular movements—a drop in 1901, a rise in 1902, another drop during the " rich man's panic " of 1903-04 (primarily an American affair), and then participation in the European revival of 1904-05. Finally, after the crisis of 1907, business recuperated more promptly in the United States than in Europe and prices reflected that fact.

Even in years of peace, then, with a virtual gold standard prevailing on both sides of the water, American prices diverge somewhat from European prices under the pressure of domestic influences. But these divergences are merely qualifications of a broader proposition. In general the price levels of the United States, England, France and Germany rose and fell together in 1890-1910. If I could exhibit here a chart containing all four curves, the first thing you would see would be their striking similarity. And after you had noted the occasional divergences of direction and degree of fluctuation you would come back again to the substantial uniformity as the matter of chief moment.

Somewhat earlier I had looked into the differences between European and American price fluctuations during our paper-standard regime of 1862 to 1879. Superficially, of course, our greenback price curve seems to have no relation to the European gold price curves of those years. But analysis showed that close relationships of the sort that stand out clearly in the figures for 1890-1910 persisted throughout the disturbances wrought by the Civil War and the paper standard. Reduce our paper prices to the European monetary units and you find that in 1862-79 the major swings of the price level are much alike in the two hemispheres. The relationship was unquestionably interfered with by the necessity of making adjustments among paper money prices for commodities in American markets, the premium on gold, the quotations for foreign bills, and the gold prices for commodities in European markets. But these difficult adjustments *were* made with a varying lag in time and a varying margin of safety, so that the price levels on the two sides of the Atlantic did not lose touch with each other.

From this earlier experience during war and peace I argue that in studying the causes of the rise of prices in 1915-20 we do well to take an international rather than an American view of the whole process. Demonstrably the rise in this country differs notably in time and degree from the rise in other countries, and it is important to inquire narrowly into these differences and their causes. Yet the price level of the commercial world today is so much the outcome of one organized process, that we can't explain what has happened in any country except by what has happened in every country. The differences

that appear on the surface of the price quotations or index numbers from Europe, Asia, Africa, Australia or the two Americas, will largely resolve themselves into arithmetical adjustments if we bring into our analysis all the factors that are now affecting commercial operations. There remain certain lags to be accounted for and certain margins of inaccuracy in the adjustments possible under the confused conditions of the world war—differences probably somewhat wider than those marking off American from European price fluctuations in 1890-1910, but still differences that will appear modest in face of the similarities.

I hope that these suggestions will strike every one interested in this discussion as obviously just—commonplace. For if we do agree upon the controlling importance of the international factor in explaining what has happened in the recent past, we may have wit enough to use what is currently happening on the international stage as a guide to what America ought to do in the present and near future. We are now blaming ourselves noisily for our absurd performances in 1919. They were absurd; but what we did in that year of madness the whole world was doing—several of the nations on a more extravagant scale than ours. The recovery from this fit will also be an international spectacle and its consequences of price reductions, liquidations, bankruptcies and (let us hope) eventual resumption of hard work at making useful goods will run their course over all the continents. We have not been the leaders in the worldwide fluctuations since 1914. By watching those who have been the leaders we may tell what soon will happen to us.